

**Statement of James M. Krouse
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Before the House Government Reform Subcommittee on Government
Management, Finance, and Accountability**

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Thank you, Chairman Platts, Ranking Member Towns, and Members of the Subcommittee. I am honored to appear before you and to provide an analytical perspective of the Federal Lines of Business in general, and on the Financial Management Line of Business in particular.

As you may be aware, INPUT provides research and intelligence on the government market, with specific emphasis on trending and forecasting in the technology arena. Understandably, one of the contract areas we are closely following includes the new Federal Lines of Business (LoB) effort.

From the initial release in March 2004, the stated goal for establishing the Federal Lines of Business, according to OMB, was to identify opportunities to reduce the cost of government and to improve service delivery to citizens with business performance improvements. The concept and rationale behind the Lines of Business may be a logical approach for the government to achieve efficiencies in programs and processes, for limiting the current array of disparate agency systems, and to leverage the relative strengths of some agencies to act as Centers of Excellence - Shared Service Providers (SSP). These combined performance improvements would assist in developing the necessary building blocks for the establishment of a comprehensive government Enterprise Architecture that is intended to centralize and consolidate government technology for maximum efficiency.

Many questions have remained outstanding since the creation of the Lines of Business over two years ago. Perhaps not surprisingly, clarifications were expected with the release of more formal guidance such as that supporting the Financial Management LoB (FMLoB) issued on May 22, 2006.

The mechanics of the Lines of Business, particularly the agency migration plans, unfortunately, do raise some questions and confusion. In particular, the provisions that will open competitions between Federal Centers of Excellence and private sector vendors for the administration of the government business lines appear somewhat unclear. While it may be noble to promote fair and open competition between public and private entities, the expectation that a private sector vendor can be guaranteed fair and open competition, or alternatively that a vendor can manage existing contract relationships across agencies that it may face as competitors may be feasible in theory, but may prove different in reality.

According to OMB, existing investments for Development, Modernization, and Enhancement (DME) of the Financial Management Line of Business across the agencies was \$785 million in FY 2006, and \$908 million in FY 2007 represents the proposed budget. However, DME investment represented only approximately 4 percent of the total Federal LoB DME budget reported in each year.

While the FMLoB guidance seeks to provide direction for Federal agencies migrating financial management systems and services to either a "...public Shared Services Center (SSC) or a qualified private sector provider under the Financial Management Lines of Business initiative," some of the most significant language suggests that historical OMB circular A-76 processes for strategic sourcing will prevail. There remains some question whether the rules of A-76 can be efficiently, effectively, and equitably overlaid on the new LoB migration process. Furthermore, it is curious why it took 2 years to determine that standing A-76 rules for competitive sourcing would govern the FMLoB migration process.

For some time, suspicion has been that vendors may find themselves filling support roles while the prime spots as LoB SSPs go to agencies. To date, this certainly appears to be the case, since migrations have already begun prior to any competitive guidance having been released. The use of A-76 competitive sourcing rules only strengthens this theory, especially when considering that from the period between 2003-2005, according to OMB, government employees won approximately 80 percent of the work competed through public-private partnerships.

Limitations on the scope of the agency-by-agency migration process present additional questions. Agencies are only being held to the migration of a minimum set of services, and agencies are not required to migrate all bureaus at the same time. Finally, an agency may simply decide the path of least resistance is to become an SSP and avoid the migration process altogether.

In conclusion, while the principles behind the creation of the Lines of Business appear grounded in logic to reduce inefficient government services, and migrate business processes to more efficient shared service providers, be they public or private, many questions remain regarding the mechanics of guaranteeing free and open competition during the agency migration process.

I leave the Subcommittee with several major questions and necessary points of clarification that INPUT has surrounding the LoB agency migration process as it currently stands, including:

1) Details and plans for the funding processes for agency migrations.

Preclusions currently exist from one department supplementing the budget of another, and the migration of an agency to another agency SSP may lead to questionable intergovernmental funds transfers.

2) The necessity and enforceability of non-disclosure agreements with companies working with agencies, and the ownership of current established solutions; especially where agencies may become competitors as SSPs.

The legal rules and mechanics of a changing contracting environment have gone largely unanswered, especially where proprietary solutions may have been developed by vendors for agencies that now may become SSPs competing for the same business.

3) Qualifying the differences between the legal enforceability of a formal public-private contract, and a public-public Memorandum of Understanding.

Will the same legal protections hold across public-private and public-public environments, and will any differences create discrepancies in the competitive environment?

4) Will the government prove itself capable of successfully managing reimbursable cross-agency service centers?

Historical success rates remain suspect, and the SSP environment between agencies will present budgeting challenges for accuracy and in meeting federal reporting requirements.

5) The viability of utilizing performance-based contracting for the LoB competitions when the contracting methodology is still in its infancy.

The performance-based contract environment has gone largely un-tested to date, and may or may not fit well within the agency migration process.

6) Will current Agency Exhibit 300 Business cases provide an adequate mechanism for conducting analysis?

From an analytical perspective, Agency Exhibit 300s appear somewhat perfunctory and mechanical in nature, and do not provide much additional insight into technical requirements and budget requirements.

7) Will a lengthy ten year agency-by-agency migration plan provide the correct timeline to allow for smooth transitions or enough rope to strangle the process.

A ten year timeline may be necessary to provide adequate time for agencies to migrate systems along the LoB framework, but bureaucratic practices and an unwillingness of agencies to change may threaten the ultimate success of the process.

Thank you again for allowing me to appear before you today. I appreciate the opportunity to present this testimony before the Subcommittee, and look forward to working with Congress throughout the process. This concludes my prepared remarks. I am pleased to answer any questions that you may have at the appropriate time.